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Special Diet Session Considers Tax Reform

Overruling opposition party protests, the government opened the 120th extraordinary Diet session July 19 to consider the most comprehensive tax reform proposal in decades. Major differences of opinion between the ruling Liberal Democratic Party and the opposition parties have not been resolved, and Prime Minister Noboru Takeshita has his work cut out for him if he is to win passage of his tax reform plan within the 70-day session.

The government put the final touches on the six-bill package of reforms July 18 when it became apparent that the opposition parties would persist in their attempts to delay the opening of the special session. Convening the session without the full support of the opposition parties was a rather drastic step, and the LDP was forced to compromise by setting the special session's length at 70 days rather than the desired 120 days. The opposition parties

If the government's estimate of overall GNP growth turns out to be conservative, revenues could expand by more than Y5 trillion ($40 billion) to more than Y50 trillion ($400 billion), boosted mainly by higher corporate taxes. If this optimistic outlook proves true, the government may be able to dispense entirely with new issues of deficit-financing bonds. The sale of Y1.3 trillion ($10.4 billion) worth of government-held Nippon Telegraph and Telephone Corp. shares will also increase revenues. Fiscal analysts, still nervous about the long-term outlook, continue to urge the government to make hard choices while it has room to maneuver.

Much work remains to be done before the FY 1989 budget is completed. Each ministry and agency will now compile a detailed budget within the general guidelines for submission to the Finance Ministry this fall. Negotiations with MOF will then continue until the cabinet submits a budget to the next regular Diet session, which normally convenes in November. With the fate of the tax reform package up in the air (see preceding article), this year's comparatively calm budget process may yet be disturbed.

Jon Choy

Japan's Trade Surplus Dips Again

Japan continues to whittle down its trade surplus, but the process is painfully slow. Last year the surplus declined for the first year since 1982. If current trends continue, it will shrink again this year but still be larger than any year before the peak year of 1986. The levels of the early 1980s, which to many seemed intolerably high at the time, now look almost like unobtainable targets over the next several years.

The figures for the April-June 1988 quarter continue a recent pattern of increasing exports that does not augur well for surplus reduction. For the third straight quarter, export volume was higher than the year before. This increase has occurred in the face of an appreciating yen that, by making exports more expensive, is supposed to reduce their volume. Major Japanese manufacturers apparently have lowered their costs and margins significantly. Strong economies abroad also have helped to offset the effect of the higher yen on the export volume.

In considering the new figures, American policymakers may take some comfort from the fact that the increase in exports has occurred mainly in trade with Asia and Europe. For example, the dollar value of exports to the European Community jumped 26.3 percent between 1987's first half and January-June of this year while in yen they were up 7.3 percent. During the same period exports to the United States dropped 9.9 percent in yen terms while increasing 5.8 percent in dollar terms. The small gain in exports combined with soaring imports reduced Japan's dollar surplus with the United States by 14.9 percent from the first six months of last year to the same period of 1988.

Overall, imports continued to be the star of the show during the second quarter, being up by every measure. On a volume basis, for example, they posted their third straight double-digit increase, up 19.4 percent. With exports rising if measured in dollars and almost flat in yen, import growth is credited with shrinking the trade surplus on a customs-clearance basis by 13.1 percent

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	$146,928	5.8%	$126,393	-4.2%	$20,534
1984	170,114	15.8	136,503	8.0	33,611
1985	175,638	3.2	129,539	-5.1	46,099
1986	209,151	19.1	126,408	-2.4	82,743
1987	229,221	9.6	149,515	18.3	79,706
1986: I	45,499	18.2	33,005	1.5	12,494
II	53,166	21.5	31,424	-2.1	21,742
III	54,768	24.7	30,153	-3.5	24,615
IV	55,718	12.6	31,826	-5.5	23,892
1987: I	51,464	13.1	31,977	-3.1	19,487
II	56,931	7.1	36,380	15.8	20,551
III	57,855	5.6	38,346	27.2	19,509
IV	62,972	13.0	42,812	34.5	20,159
1988: I	60,296	17.2	44,499	39.2	15,797
II(p)	65,136	14.4	47,273	29.9	17,863

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	Y34,909	1.4%	Y30,014	-8.1%	Y4,895
1984	40,325	15.5	32,321	7.7	8,004
1985	41,956	4.0	31,085	-3.8	10,871
1986	35,290	-15.9	21,551	-30.7	13,739
1987	33,315	-5.6	21,737	0.9	11,578
1986: I	8,674	-12.4	6,334	-24.1	2,339
II	9,119	-17.3	5,399	-33.3	3,720
III	8,632	-18.5	4,758	-36.8	3,874
IV	8,865	-15.1	5,060	-28.9	3,806
1987: I	7,960	-8.2	4,959	-21.7	3,002
II	8,153	-10.6	5,207	-3.6	2,946
III	8,507	-1.5	5,644	18.6	2,864
IV	8,694	-1.9	5,928	17.2	2,767
1988: I	7,715	-3.1	5,687	14.7	2,028
II(p)	8,158	0.1	5,919	13.7	2,239

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	$42,829	17.9%	$24,648	1.9%	$18,181
1984	59,937	39.9	26,862	9.0	33,075
1985	65,278	8.9	25,793	-4.0	39,485
1986	80,456	23.3	29,054	12.6	51,401
1987	83,580	3.9	31,491	8.4	52,090
1986: I	16,696	25.1	6,278	-7.3	10,418
II	20,921	24.3	8,305	25.1	12,616
III	21,280	28.1	7,525	23.1	13,755
IV	21,559	16.7	6,946	10.8	14,613
1987: I	18,001	7.8	6,986	11.3	11,015
II	21,181	1.2	7,592	-8.6	13,589
III	21,628	1.6	8,252	9.7	13,376
IV	22,770	5.6	8,660	24.7	14,110
1988: I	19,859	10.3	10,088	44.4	9,772
II(p)	21,600	2.0	10,439	37.5	11,161

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1983	Y10,179	12.9%	Y5,855	-2.3%	Y4,323
1984	14,221	39.7	6,364	8.7	7,858
1985	15,583	9.6	6,213	-2.4	9,369
1986	13,564	-13.0	4,918	-20.9	8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1986: I	3,191	-6.9	1,203	-30.7	1,988
II	3,589	-15.4	1,421	-15.1	2,168
III	3,355	-16.3	1,190	-19.3	2,165
IV	3,429	-12.1	1,104	-16.9	2,325
1987: I	2,786	-12.7	1,083	-9.9	1,703
II	3,034	-15.5	1,086	-23.6	1,948
III	3,180	-5.2	1,215	2.1	1,965
IV	3,148	-8.2	1,198	8.5	1,950
1988: I	2,541	-8.8	1,290	19.1	1,251
II(p)	2,705	-10.8	1,307	20.4	1,398

in the April-June quarter compared to a year earlier. Imports benefit from the double-barrelled effect of a robust economy, which pulls in imports as it grows, and a rising yen, which makes purchases from abroad cheaper, expanding their volume. Manufactured goods are now a higher percentage of imports than ever before. Since they expand more rapidly with economic growth than other imports, this suggests that imports overall may have become more responsive to an expanding economy.

In the next few months, the effort to reduce Japan's overall trade surplus in dollars will get a little help if the dollar's recent strength causes the dollar price of Japanese imports to edge upward. The effect will be at least partly offset if, as some evidence suggests, Japanese exporters raise dollar prices as a result of past yen appreciation and strong domestic markets. Over a longer period of time, however, export and import volumes would respond to the higher prices. These crosscurrents are one reason most forecasters see the trade surplus narrowing only slightly during the second half of 1988.

Douglas Ostrom

Unemployment Dropping In Japan

Japan's experience with the high yen continues to produce surprises. Not only has the economy grown much faster than expected since hitting bottom in late 1986, unemployment has declined since peaking at 3.2 percent in May 1987. At 2.5 percent the figure for May is the lowest in more than three years and below the annual average for 1983 and 1984 when the yen was much weaker. Further, at a seasonally adjusted 0.99 in May, the effective job-opening ratio means that the number of employers seeking workers almost exactly equals those seeking employment. This ratio stands at the most favorable level since September 1974.

The figures suggest that the run-up in the yen's value has not wreaked quite the damage once expected. To the extent firms have trimmed costs to remain competitive in the face of currency appreciation and reduced employment in the process, those displaced or not hired appear to have found work elsewhere. Similarly, the movement of production offshore so far has had little effect on existing jobs or employment opportunities.

In its 1987 white paper, released this month, the Ministry of Labor sees the employment situation as more complex. The low and declining unemployment rate masks workers' problems with extended commuting times, long working hours and high prices. Even the unemployment situation is not as good as it looks; among some groups the employment situation is worsening. The white paper notes that joblessness has risen particularly among those just beginning their employment history or approaching the end of it. Among men 15 to 19, the rates are high, according to the white paper, because the forms of part-time work are changing, among other reasons. Unemployment is also high for men 60 to 64 because job opportunities are lacking.

The Ministry of Labor also hints that the current jobless rate of 2.5 percent may be about as low as can reasonably be expected. Because of the age and geographic distribution of the existing unemployment, further increases in economy-wide demand may not increase employment opportunities for the jobless